

## **MEMORANDUM**

**TO:** Mary Ann Borgeson, Chair, Douglas County Commissioner  
Clare Duda, Vice-Chair, Douglas County Commissioner  
Mike Boyle, Douglas County commissioner  
Marc Kraft, Douglas County commissioner  
PJ Morgan, Douglas County Commissioner  
Chris Rodgers, Douglas County Commissioner  
Pam Tusa, Douglas County Commissioner

**CC:** Thomas Cavanaugh, Douglas County Clerk/Comptroller  
Kathleen Hall, Chief Deputy Douglas County Clerk/Comptroller  
Jerry Prazan, Finance Administrator Douglas County Clerk/Comptroller  
T. Paul Tomoser, Audit Committee Chair  
Jack Armitage  
Ron Bucher  
Joni J. Davis  
Kathleen Kelley, Chief Administrative Officer  
Joe Lorenz, Director of Budget and Finance  
Patrick Bloomingdale, Deputy County Administrator  
Fred Weber

**FROM:** Mike Dwornicki, Internal Audit Director

**DATE:** May 26, 2011

**SUBJECT:** Payroll Audit

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### **Background**

As part of the fiscal year audit plan, Douglas County Internal Audit performs internal control testing for the Douglas County external audit firm, Hayes and Associates, LLC. The external auditor uses the test data provided by Internal Audit to formulate a professional opinion about the County's year-end financial statements. Below are the details related to tests of the controls for processing the County's payroll.

### **Objectives**

The objectives of the audit were to determine that:

- Employees are paid based upon rates that are properly authorized by appropriate County officials.

- Employees are paid based upon time that is accurately recorded and properly authorized and approved.
- Gross compensation, tax withholdings, deductions and net pay are recorded completely and accurately.

### **Scope and Methodology**

The audit included a review of twenty-five randomly chosen employees' pay from five randomly chosen pay periods from July 1, 2010 through April 30, 2011. The sample was chosen from Oracle payroll data and included tests to verify that:

- Pay rates were approved by Board resolution or included in the appropriate union contracts.
- The time recorded in the payroll period for each employee was properly authorized and approved.
- Gross pay, tax withholdings, deductions and net pay were properly calculated.
- All deductions were properly authorized by the employees.

### **Findings**

**Criteria:** All time entered for employees should be properly authorized and approved by their supervisor. Evidence of supervisory approval should be appropriately documented.

**Condition:** It was noted that the County does not have a consistent policy regarding supervisory review of employee payroll time. Some departments are set-up so that supervisors are required to approve all time within Oracle before the payroll can be processed. However, not all departments are set-up this way nor is there a requirement for supervisory review after payroll is processed.

**Effect:** Without supervisory approval, pay for gross wages and paid time-off may not accurately reflect the actual amount or type of pay due the employee.

**Cause:** County policy did not require that the time recorded in the payroll system be approved by the employees' supervisors.

**Recommendation:** Establish a County-wide policy that all employees time must be approved by the employees' supervisors. The approval should include verification that the time charged for the payroll period was for time and shifts actually worked and any paid time-off was accurately classified. The approval should be documented and kept for an appropriate period of time.

Management Response:

The Douglas County Chief Administrative Officer will draft a policy to require supervisory approval and is pursuing additional reporting that will help simplify the process.

**Audit Standards**

Internal Audit conducted this audit in accordance with generally accepted government auditing standards. Those standards require that the audit is planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Internal Audit believes that the evidence obtained provides a reasonable basis for its findings and conclusions based on the audit objectives.

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Internal Audit has reviewed this information with the Douglas County Chief Administrative Officer and the Chief Deputy Douglas County Clerk. Internal Audit appreciates the excellent cooperation provided by management and staff. If you have any questions or wish to discuss the information presented in this report, please contact Mike Dwornicki at (402) 444-4327.